

1 **DIRECT TESTIMONY**

2 **OF**

3 **KEVIN B. MARSH**

4 **ON BEHALF OF**

5 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

6 **DOCKET NO. 2009-489-E**

7  
8 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.**

9 A. My name is Kevin Marsh and my business address is 220 Operation Way,  
10 Cayce, South Carolina. I am President and Chief Operating Officer of South  
11 Carolina Electric & Gas Company (“SCE&G” or the “Company”).

12 **Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**  
13 **EXPERIENCE.**

14 A. I am a graduate, magna cum laude, of the University of Georgia, with a  
15 Bachelor of Business Administration degree. Prior to joining SCE&G, I was  
16 employed by the public accounting firm of Deloitte, Haskins & Sells, now known  
17 as Deloitte & Touche, L.L.P. I joined SCE&G in 1984 and have served as  
18 Controller, Vice President of Corporate Planning, Vice President of Finance, and  
19 Treasurer. From 1996 to 2006, I served as Senior Vice President and Chief  
20 Financial Officer of SCE&G and SCANA. From 2001-2003, while serving as  
21 CFO of SCE&G and SCANA, I also served as President and Chief Operating

1 Officer of PSNC Energy in North Carolina. In May of 2006, I was named  
2 President and Chief Operating Officer of SCE&G.

3 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION IN THE**  
4 **PAST?**

5 A. Yes. I have testified in a number of different proceedings.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
7 **PROCEEDING?**

8 A. The purpose of my testimony is to report on the state of the Company from  
9 an operating standpoint and to provide an introduction to the rate request before  
10 the Commission. In my testimony, I also discuss several of the primary reasons  
11 why the Company has filed for this rate increase and the major strategic initiatives  
12 undertaken to meet the federal and state environmental and safety related  
13 mandates and the future energy needs of our customers.

14 **Q. WHAT OTHER WITNESSES WILL THE COMPANY PRESENT?**

15 A. The Company will present the following additional witnesses in this case:

16 **Mr. Stephen A. Byrne**, Executive Vice President of Generation and Chief  
17 Nuclear Officer, who will testify concerning the Company's generation  
18 operations, environmental upgrades to the Company's generating plants,  
19 and plans to add new generating capacity.

20 **Mr. Robert B. Hevert**, President of Concentric Energy Advisors, Inc., who will  
21 testify concerning current conditions in capital markets, the reasonableness

1 of the Company's capital structure and an appropriate cost of capital for the  
2 Company.

3 **Ms. Julie M. Cannell**, President of J. M. Cannell, Inc., who will testify  
4 concerning financial markets, SCE&G's position in them, and cost of  
5 capital.

6 **Mr. Jimmy E. Addison**, Senior Vice President and Chief Financial Officer of  
7 SCE&G, who will testify concerning the financial posture of SCE&G, the  
8 Company's cost of capital and the current need for rate adjustments.

9 **Mr. John J. Spanos**, Vice President of the Valuation and Rate Division of  
10 Gannett Fleming, Inc., who will testify concerning the Company's new  
11 depreciation study.

12 **Ms. Tami S. Haselden**, Manager of Tax Compliance and Accounting for SCANA  
13 Corporation and its subsidiaries, who will testify concerning the  
14 Company's proposal to reduce its revenue requirements through the use of  
15 the Economic Impact Zone Investment Tax Credit ("EIZ Tax Credit").

16 **Dr. Joseph M. Lynch**, SCE&G Manager of Resource Planning, who will testify  
17 concerning issues related to Rate 21A.

18 **Mr. James E. Swan, IV**, Controller of SCE&G, who will testify concerning  
19 accounting matters and pro-forma adjustments.

20 **Mr. John R. Hendrix**, SCE&G's Manager of Electric Pricing and Rate  
21 Administration, who will testify concerning cost of service and rate design.

22 **Q. PLEASE DESCRIBE SCE&G'S ELECTRIC SYSTEM.**

1 A. SCE&G is engaged in the generation, transmission, distribution and sale of  
2 electricity to 654,825 customers (as of December 31, 2009). SCE&G's electric  
3 service territory extends into 24 counties covering nearly 17,000 square miles in  
4 the central, southern and southwestern portions of South Carolina. SCE&G's  
5 service territory includes the metropolitan areas of Charleston, Columbia,  
6 Beaufort, and Aiken and many other smaller cities and towns, and rural areas.

7 SCE&G's 654,825 customers are divided into three principal customer  
8 classes, which comprise 562,071 residential customers, 88,380 commercial  
9 customers, and 744 industrial customers. In 2009, residential customers  
10 represented 35% of SCE&G's territorial electric sales. Commercial customers  
11 consumed 33% of that amount, and industrials 24%. The balance is represented  
12 by sales-for-resale customers and miscellaneous customer classes.

13 **Q. PLEASE DESCRIBE SCE&G'S GENERATION OPERATIONS DURING**  
14 **2009.**

15 A. During 2009, SCE&G's generation facilities produced 24,871,750  
16 megawatt hours ("MWH") of electricity. Of this amount, the coal plants generated  
17 50%, the combined cycle units generated 26%, the gas peaking turbines and hydro  
18 facilities generated 4%, the nuclear plant generated 19%, and a biomass generation  
19 facility produced 1%. As Mr. Byrne will testify, our generation fleet performed  
20 well during the test year ended September 30, 2009 and experienced forced outage  
21 rates and heat rates that were superior to national averages.

1

2 **CUSTOMER ISSUES**

3 **Q. HOW IS SCE&G HELPING CUSTOMERS WHO ARE FACING**  
4 **DIFFICULTIES IN THESE CHALLENGING ECONOMIC TIMES?**

5 A. The Company is keenly aware of the fact that a significant number of its  
6 customers have been impacted by the loss of jobs and other dislocations caused by  
7 the severe recession of 2008-2009. This situation has been worsened by the  
8 sustained cold temperatures that South Carolina experienced in the December  
9 2009 through the February 2010 time period resulting in abnormally high  
10 customer bills. For example, in Columbia during the months of January and  
11 February 2010 there were 33 days when the temperature was under 30 degrees,  
12 compared to just 19 days in January and February of 2009. The standard measure  
13 of the impact of cold weather on energy consumption is heating degree days,  
14 which measures the difference between the average daily temperature and a 65  
15 degree temperature base. During January 2010, heating degree days were 28%  
16 higher than the 15-year average, and 19% higher than the same period in 2009.  
17 Heating degree days in February 2010 were 46% higher than the 15-year average  
18 and 33% higher than February 2009. The cumulative heating degree days for  
19 2010, through February, were 36% higher than the 15-year average. The National  
20 Weather Service has determined that December 2009 through February 2010 was  
21 one of the coldest winters on record in South Carolina.

1           During this time, the system set an all-time winter peak and cold weather  
2           drove electric usage to record levels for a non-summer period. The result was a  
3           real hardship for our customers. For example, January 2010 residential electric  
4           bills were 34% higher than the bills issued last year. This weather-driven spike in  
5           consumption resulted in a similar spike in bill inquiry calls to SCE&G's customer  
6           service centers. Such calls increased by 29% in January, compared to December  
7           2009. Customer assistance requests increased by 57% during this period.

8   **Q.   HOW HAS SCE&G RESPONDED TO THESE CONDITIONS?**

9   A.           During these difficult periods, SCE&G has aggressively expanded the  
10           assistance available to its customers and has actively promoted awareness of the  
11           availability of that assistance. In December of 2009, we launched the "Helping  
12           Hands" campaign to better educate our employees and customers about available  
13           assistance for high bills, payment problems, weatherization and conservation.  
14           SCE&G communicated the available assistance programs through its customer  
15           service centers, local media, postings on our website, and brochures distributed in  
16           our business offices. SCE&G's employees throughout our service territory also  
17           play an important role in identifying customers in need. We made information  
18           about assistance programs available to employees throughout the Company and  
19           encouraged them to refer any customers in need that they come into contact with  
20           to our customer assistance specialists. We also brought local media into our  
21           customer call centers and sent them out with our energy efficiency auditors and  
22           weatherization experts for live feeds highlighting our customer assistance

opportunities. These incentives have been very successful in raising the profile of our available assistance offerings.

**Q. WHAT TYPES OF ASSISTANCE CAN CUSTOMERS RECEIVE FROM SCE&G?**

A. For customers having immediate difficulty paying a bill, customer service representatives can offer short-term arrangements to extend past due dates to allow the customers time to make their payments. Where more time is required, the Company offers customers the ability to pay an outstanding balance through a deferred payment plan with the balance paid down over a period of up to 12 months. Where customers have medical conditions requiring uninterrupted electric service, the Company offers a medical certificate program ensuring continued service even when there are payment defaults.

In addition, in response to the current economic crisis and the high bills this past winter, the Company has relaxed the standards for Budget Billing which allows customers to levelize bill payments over an entire year with annual true-ups. This program was originally structured to require customers to pay all outstanding bills before they could be placed on Budget Billing. In response to current conditions, we now allow customers to roll outstanding bills into future payment streams, in effect, allowing the customer to spread the payment of outstanding bills over twelve months. There is no financing cost charged to the customer for this service. This service has been particularly helpful for customers whose resources are stressed by high bills during the recent winter.

**Q. WHAT OTHER STEPS HAS THE COMPANY TAKEN TO PROVIDE ASSISTANCE TO RESIDENTIAL CUSTOMERS IN NEED?**

A. In light of the economic conditions in 2009, the Company temporarily relaxed credit policies as related to residential customer deposits. Ordinarily, the Company can hold deposits for up to 24 months until new or credit challenged customers have established a stable payment history. In light of current conditions, and the critical needs many of our residential customers had for the funds these deposits represent, the Company accelerated the refunds of deposits to customers. In 2009, some 7,099 residential customers received over \$1 million in accelerated refunds. We have received positive feedback from numerous customers who received these unanticipated refund credits.

**Q. HAVE THESE OTHER EFFORTS TO WORK WITH CUSTOMERS BEEN SUCCESSFUL?**

A. Yes they have. In the month of January 2010 alone, the Company extended special assistance to a total of 52,278 customers. In that month, 86,121 customers were receiving assistance in managing their energy bills through the Budget Billing Program. This means that we provided assistance in one way or another to approximately one out of every five of our residential customers. The following is a breakdown of the types of assistance received by our customers:

Type of Assistance	Jan. 2010
Short Term Arrangements	45,241
Medical Certificates	737
Deferred Payment Plan/Arrangement	6,300



<b>Total customers receiving special assistance:</b>	<b>52,278</b>
Budget Billing	86,121
<b>Total customers assisted:</b>	<b>138,399</b>

**Q. PLEASE DESCRIBE WHAT OTHER RESOURCES YOU HAVE AVAILABLE TO CUSTOMERS.**

A. SCE&G has a strong Customer Assistance Program, administered through the customer service department that is specifically dedicated to working with those customers who are experiencing financial difficulties. The program is led by a manager who has 31 years of experience in this area and who is supported by a team of employees who are specialists in this area. They assist our much larger cadre of customer service representatives and field personnel in identifying customers in need, in providing direct assistance to customers and in coordinating the assistance available from state and local governments, community action agencies, churches, charities and other sources.

The customer service representatives who work in our contact centers and business offices are trained to identify customers who need special assistance and to encourage them to come in and speak with one of our specially trained customer assistance representatives. These customer assistance specialists work with these customers and with local churches, charities, community action agencies, governmental entities and other bodies to coordinate assistance and match customers with appropriate sources of help. Our customer assistance specialists have an excellent track record of locating the kind of assistance needed to keep

1 people in their homes and receiving electric service. In 2009, through the  
2 combined efforts of SCE&G's Customer Assistance Program and its more than  
3 140 agency partners, SCE&G's customers received approximately \$11.1 million  
4 in direct energy assistance.

5 **Q. WHAT SORT OF AID IS AVAILABLE THROUGH THESE SOURCES?**

6 A. The assistance that SCE&G administers, coordinates or assists in securing  
7 includes: the Good Neighbor Fund, Project Share, LIHEAP, and Energy  
8 Assistance.

9 • **LIHEAP** – The Low Income Home Energy Assistance Program (“LIHEAP”)  
10 is a U.S. Department of Energy (“DOE”) program that assists low income  
11 households in meeting immediate home energy needs. SCE&G's field  
12 personnel and customer service representatives identify eligible customers and  
13 Customer Assistance advisors help those customers fill out applications and  
14 follow up on applications as needed. Local community action agencies  
15 distribute LIHEAP funds and, as discussed below, SCE&G coordinates with  
16 these agencies to have the funds credited to customers. LIHEAP is one of the  
17 major forms of energy assistance provided by the community action agencies.

18 • **Energy Assistance** – As mentioned above, SCE&G works in close  
19 coordination with the many churches and other faith-based organizations,  
20 charitable organizations, and government entities that provide assistance to  
21 people in need. Examples of such agencies are: Salvation Army chapters and  
22 Catholic charities throughout our service territory; Bibleway Baptist Church,

1 First Baptist Church and Cooperative Ministries in Columbia; Citadel Square  
2 Baptist Church in Charleston; and the community action agencies that operate  
3 throughout our area. In fact, some 140 such charitable organizations have  
4 entered into direct agency and vendor agreements with SCE&G that allow  
5 these organizations to pledge assistance directly to an eligible customer's  
6 SCE&G account. Nearly half of the assistance received from the agencies is  
7 received through WebPledge, which allows participating agencies, with  
8 appropriate confidentiality agreements and password protection, to access  
9 customer account information directly through the web, and make pledges of  
10 assistance which are automatically recorded as payments to customers'  
11 accounts. Other agencies can do much the same using automated phone in  
12 services, where after entering a password, they can check account information  
13 and make payment pledges that are automatically credited to customers'  
14 accounts. In 2009, 37,866 SCE&G customer households received  
15 approximately \$11.1 million in assistance, including LIHEAP funds, through  
16 these agencies.

- 17 • **Project Share** – Project Share provides assistance to low-income customers  
18 with winter heating bills and, in health-related cases, summer bills. Project  
19 Share is funded entirely by SCE&G customers, employees, and retirees. Local  
20 community action agencies distribute Project Share grants to families and  
21 individuals so that 100% of the money goes to people in need. In addition,  
22 Project Share provides an additional avenue of assistance for customers who

1 have exhausted or are otherwise ineligible for LIHEAP funds. Since the  
2 program began in 1986, contributions of more than \$7 million have helped  
3 more than 43,000 low-income customers in towns and communities served by  
4 SCE&G. In 2009, the total amount raised to assist low income customers was  
5 over \$252,000.

- 6 • **Good Neighbor Fund** – The Good Neighbor Fund is a non-profit organization  
7 established by SCANA employees that is funded entirely by contributions from  
8 employees and retirees. The Good Neighbor Fund assists individuals and  
9 families in meeting the cost of essentials such as food, medicine, doctor bills,  
10 and rent or mortgage payments. Since its inception in 1982, the Good  
11 Neighbor Fund has provided assistance to over 9,700 households and  
12 distributed over \$3 million in aid. In 2009 alone, this program helped 344  
13 households and distributed over \$150,000 in contributions.

#### 14 **CUSTOMER SERVICE**

15 **Q. CAN YOU PROVIDE INFORMATION ABOUT SCE&G'S GENERAL**  
16 **CUSTOMER SERVICE OFFERINGS?**

17 A. Yes. Contact centers, business offices and websites are the key to effective  
18 customer service in today's economy since most of SCE&G's customers interact  
19 with the Company through one or more of these media. Over the past several  
20 years, the Company has put a great deal of effort into improving its contact center  
21 systems and making its web site more functional and accessible to its customers.  
22 Business office customers now have the convenience of using credit and debit

cards to make payments. SCE&G's interactive voice response system (IVR) and web site were recently evaluated by E Source, which is an independent research advisory and information firm that provides service to utilities, major energy users, and other key players in the retail energy marketplace internationally. E Source ranked 95 utility IVR systems in the United States and Canada based upon the ease of use and functionality of the 13 tasks and functions that a 2008 E Source market research study found were the options residential customers most strongly value. Among the 95 utilities in the United States and Canada that were reviewed, SCE&G's IVR ranked fifth. The following is a chart showing the increase in the number of customers' calls being serviced by IVR between 2005 and 2009:

	2005	2009
<b>Total All Calls</b>	2,436,024	2,797,975
<b>Total IVR</b>	425,538	992,781
<b>% IVR</b>	17.5%	35.5%
<b>% Increase in IVR serviced calls 2005-2009</b>	133%	

E Source conducted a similar evaluation of the utility web sites based on the 31 web and mobile features (both content information and self-service tasks) identified by E Source as the features residential customers most want to see on their utility's web site. SCE&G's web site was ranked third among 100 North American utility websites reviewed. Through its website, the residential and commercial customers can create an online account to access their SCE&G account information and utilize the many services offered there. These customers

also have the option of setting up a “paperless” account where all billing and other transactions are handled electronically. The value of the Company’s website and these services is evident from the increased usage shown below.

Accounts	Jan 2005		Jan 2010		5-Year Stats	
	# Count	% of Total	# Count	% of Total	# Growth	% Growth
Residential Online	103,333	18.3%	251,816	39.9%	148,483	143.7%
Residential Paperless	26,291	4.6%	125,022	19.8%	98,731	375.5%
Commercial Online	7,150	7.4%	23,220	22.5%	16,070	224.8%
Commercial Paperless	2,817	2.9%	10,565	10.3%	7,748	275.0%

This chart shows that the number of residential online accounts has grown by 144% since 2005 and that almost 40% of residential accounts are now on-line. The number of residential customer accounts choosing to participate in the Company’s paperless billing and account service has nearly quadrupled in that period. In fact, almost 20% of the Company’s residential accounts are now paperless accounts, a total which is more than double the national average of 8% participation in such programs.

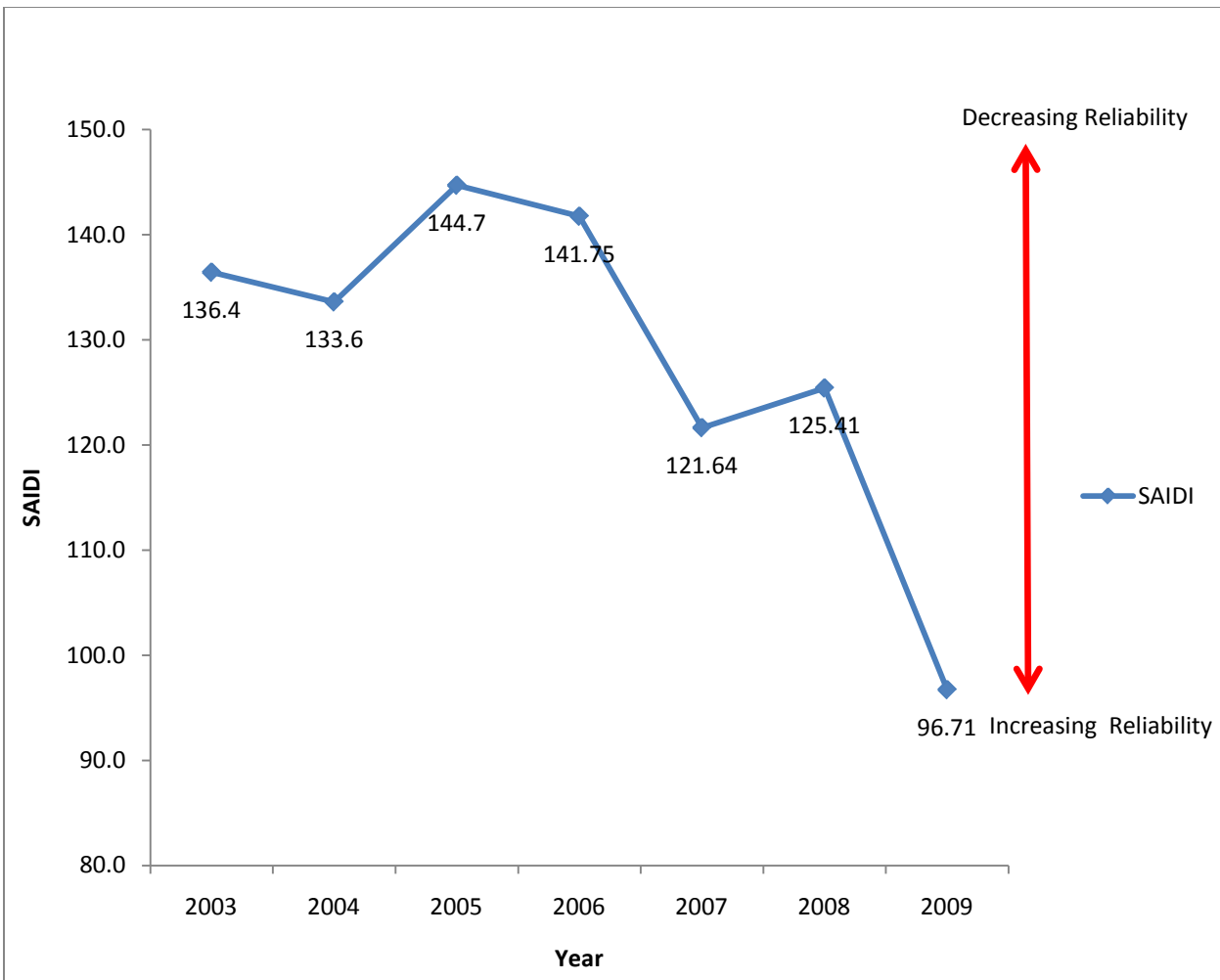
**Q. HAS SCE&G’S CUSTOMER SERVICE RECEIVED ANY OTHER RECOGNITIONS?**

A. Yes. In its 2010 customer’s satisfaction survey for electric business customers, J.D. Power and Associates ranked SCE&G in second place out of 19

1 large utilities in customer service for the south region. SCE&G has been listed in  
2 first or second place in three of the past four years in this survey.

3 **Q. HOW RELIABLE WAS SCE&G'S SERVICE TO ITS ELECTRIC**  
4 **CUSTOMERS DURING 2009?**

5 A. The best measure of reliability for distribution customers is the Company's  
6 System Average Interruption Duration Index ("SAIDI"), which represents the  
7 average number of minutes of interruption per customer per year. In 2009,  
8 SCE&G's SAIDI score was 96.71. In terms of system reliability, this score means  
9 that on average throughout 2009 SCE&G's system was available to meet the  
10 electric needs of its customers 99.98% of the time. Below is a chart showing the  
11 Company's SAIDI score since 2003.



As shown in this chart, the Company's 2009 SAIDI score was a 23% improvement from the SAIDI score for 2008, and a 21% improvement over the SAIDI score for 2007. Much of the improvement in these results is attributable to SCE&G's expanded tree trimming and vegetation management program.

**Q. HOW HAS SCE&G SOUGHT TO CREATE JOBS AND ECONOMIC OPPORTUNITY THROUGH ECONOMIC DEVELOPMENT?**

A. SCE&G has a team of economic development and local government professionals that played an integral role in industries locating 13 new or



1 expanding investments in our service area during 2009, often in the face of fierce  
2 competition from other states and other countries. As funding in the public sector  
3 has diminished due to budget constraints, SCE&G's role has become more  
4 important in successful industrial recruiting in its service area. SCE&G's  
5 industrial recruitment professionals coordinate with state and local government  
6 economic development officials to carry out marketing missions, industrial  
7 recruitment and other development activities.

8 The single most important project SCE&G assisted in bringing to South  
9 Carolina in recent years was the Boeing project. In 2009, the Boeing Corporation  
10 announced its decision to locate a major commercial aircraft assembly plant in  
11 North Charleston. The total investment in this project is approximately \$750  
12 million and the project will generate over 3,800 direct new jobs. In awarding its  
13 2009 Economic Development Deal of the Year Gold Award to the South Carolina  
14 Department of Commerce, *Business Facilities* magazine stated that "[t]he choice  
15 of North Charleston as a manufacturing site for Boeing's best-selling commercial  
16 jet will have a seismic impact on South Carolina's economic development."<sup>1</sup>

17 SCE&G will provide the new Boeing plant with electric service and played  
18 an important role in South Carolina's success in becoming an emerging center for  
19 aircraft manufacturing. SCE&G worked with the Department of Commerce and  
20 the Charleston Regional Development Alliance beginning in 2003 to bring this  
21 project and its predecessor Vought to South Carolina. It is important to note that

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<sup>1</sup> See <http://www.businessfacilities.com/articles/2009-economic-development-deal-of-the-year-awards.php>.

1 South Carolina remains a viable option for economic development projects, like  
2 the Boeing project, because among other factors we are seen as having reliable  
3 supplies of electrical energy to meet the needs of companies looking to expand or  
4 locate here, both now and in the future.

5 Another beneficial project SCE&G assisted in securing in the last several  
6 years is the expansion of Dixie-Narco's Barnwell County vending machine  
7 manufacturing plant which will include the consolidation of Dixie-Narco's  
8 nationwide operations in the Town of Williston. This decision is expected to lead  
9 to the creation of approximately 1,000 jobs in an economically-challenged rural  
10 area. Dixie-Narco's total investment for this project is approximately \$20 million.  
11 In aggregate, the 13 new or expansion projects in SCE&G's service territory in  
12 2009 represent a total investment in South Carolina of approximately \$934 million  
13 and the potential for a total of 5,600 new jobs for South Carolinians. In addition,  
14 the construction of SCE&G's new nuclear units has created over 620 new jobs  
15 with contractors and subcontractors in Jenkinsville, South Carolina. The largest  
16 single group of jobs on the site is craft laborers employed by the construction  
17 contractor, the Shaw Group. More than 60% of these craft laborers are South  
18 Carolinians. Of the 85 prime and second tier contractors that have been hired by  
19 the Shaw Group, more than 50% are South Carolina based businesses.

#### 20 **COST CONTROL AND THE CURRENT RATE REQUEST**

21 **Q. WHY IS SCE&G SEEKING AN ELECTRIC RATE INCREASE AT THIS**  
22 **TIME?**

1 A. SCE&G continually seeks to contain costs and increase the efficiency of its  
2 operations consistent with its obligation to provide safe and reliable electric  
3 service to meet the demands of its service territory. However, in spite of its cost  
4 containment efforts, SCE&G's current return on equity ("ROE"), after accounting  
5 and pro forma adjustments, has fallen to 6.82% compared to an allowed return of  
6 11.0%. To allow the Company to pay for the cost of continuing to provide reliable  
7 and efficient electric service and to allow it to continue to invest in the facilities  
8 needed to provide such service, a rate adjustment of \$197.6 million is required.  
9 Access to reasonably-priced capital is critical for SCE&G to continue to maintain  
10 a reliable, efficient and safe electrical system. Without a rate adjustment,  
11 SCE&G's returns will continue to deteriorate and would make it difficult for the  
12 Company to access capital on reasonable terms going forward.

13 **Q. PLEASE DESCRIBE SOME OF THE THINGS THAT SCE&G HAS DONE**  
14 **RECENTLY TO MITIGATE COST INCREASES TO CUSTOMERS.**

15 A. Our management team and employees constantly seek to mitigate costs in  
16 ways that are consistent with the long-term interest of our customers in a reliable,  
17 and efficient electric system. The following are some of the steps we have taken  
18 to manage costs to customers in recent years.

19 **Operation and Maintenance ("O&M") Expenses** –SCE&G has  
20 successfully reduced overall O&M spending in 2009 compared to test period in  
21 the last rate case. Some of the steps that the Company has taken to hold down  
22 O&M expenses include:

- The Company has focused on managing health care costs. For example, the Company's newly implemented high deductible plan option has reduced health care claims approximately \$650,000 annually. Additionally, increasing employees' contributions to their health care coverage has saved approximately \$300,000 annually. The recent decision to eliminate stop loss insurance for health care claims has reduced costs by approximately \$800,000 annually.

Due to these and other efforts by SCE&G to manage health care costs, SCE&G's health care claims decreased approximately 1.5% from 2008 to 2009. This compares favorably to the national health care trends which increased 7.5% over the same time period. Had SCE&G's costs increased at the same rate as the national average, the estimated additional revenue requirement in this proceeding would have been \$1.53 million.

- Corporate officers and exempt employees, excluding working craft supervisors, have not received a general pay increase since February 2008.
- Hiring restraints are in place across the Company. Positions are being filled only when necessary, with emphasis on hiring only when additional or replacement personnel are needed for safety, reliability or maintaining excellent customer service.
- For a number of years, SCE&G has sought to maintain flexibility in staffing by keeping a core of experienced employees in its operational areas, and supplementing those areas with contractors who respond to labor needs as

1 circumstances require. Since the summer of 2008, SCE&G has cut back on its  
2 non-nuclear contractor services and has eliminated the full time equivalent of  
3 234 contractor personnel working on its system in non-nuclear capacities. This  
4 reduction in work force has resulted in savings to the Company and its  
5 customers of over \$13 million in capital spending

- 6 • The Fossil Hydro Team has identified annual O&M Materials and Supplies  
7 savings from projects implemented beginning in 2008 that have resulted in  
8 savings of \$1.7 million.

9 **Synthetic Fuels Tax Credit** – As the Commission is aware, SCE&G is the  
10 only regulated electric utility which used the Federal Synthetic Fuels Tax Credit it  
11 earned from non-utility operations to defray costs that would otherwise have been  
12 paid by regulated customers. Other utilities used this credit to generate earnings  
13 for stockholders. Through its Synthetic Fuels Tax Credit, SCE&G successfully  
14 defrayed 77% of the capital cost of the Saluda Dam Remediation Project, or a total  
15 of \$254.4 million. Had the entire cost of this project been included in rates, the  
16 cost to customers in the test year would have increased by \$40.4 million.

17 **Plant Efficiencies** – As indicated above, SCE&G's plants continue to  
18 operate at high levels of efficiency and the combined heat rate of all SCE&G's  
19 coal plants was significantly lower than the average heat rate of coal plants  
20 nationally. Had SCE&G's coal plants operated at the national average heat rate,  
21 the increased fuel cost to customers would have been \$33 million in 2009.

1 SCE&G set a winter peak of 4,718 megawatts (“MW”) on January 11,  
2 2010. During this period of high energy demand throughout the southeast region,  
3 SCE&G’s generation fleet was able to supply 100% of SCE&G’s energy  
4 requirements without purchasing any MWs from other utilities. In addition,  
5 SCE&G’s V.C Summer plant set a plant record of 475 days of continuous  
6 operation during the 18-month period between Refueling 17 which occurred in the  
7 Spring of 2008 and Refueling 18 which occurred in the Fall of 2009.

8 **Personnel and Efficiency Improvements** – Both our generation and  
9 transmission/distribution business units have taken steps to reduce costs through  
10 combining operations and reducing staff. Several organizations within SCE&G  
11 overhauled their work schedules in an effort to ensure that essential services were  
12 being addressed with the minimum labor required. As a result of this work,  
13 SCE&G’s Fossil Hydro group saved \$1.3 million in combined labor and overtime  
14 in 2009. Overtime labor costs in our Transmission and Distribution areas have  
15 also been reduced by approximately \$600,000 in the test period primarily due to  
16 enhancements of the SCADA system and additional tree trimming and vegetation  
17 control work.

18 Another example of personnel related cost reduction is seen in the staffing  
19 for the new Williams and Wateree scrubbers. When the Fossil Hydro Scrubber  
20 Team reviewed the standard staffing for such scrubbers, it found that SCE&G  
21 should expect to add a total of 28 new employees to operate the Wateree and  
22 Williams scrubbers. That was the initial staffing recommendation. After carefully

1 reviewing the functions involved, the team determined that both scrubbers could  
2 be operated safely and efficiently with 18 employees. During the design and  
3 construction period, the Fossil Hydro team put in place a strategy to review all job  
4 vacancies at the Williams and Wateree plants for possible reassignment of those  
5 positions to scrubber staffing needs. This review resulted in six existing positions  
6 being re-allocated to scrubber operations. As a result, the addition of the  
7 scrubbers to these plants resulted in a net gain to total headcount of only 12 rather  
8 than the original 28 originally anticipated. This resulted in a \$1.6 million  
9 reduction in the labor cost increase associated with these new scrubbers.

10 An additional example of reducing personnel costs relates to remote  
11 start/stop capability that Fossil Hydro has installed for its 249 MW of gas and oil  
12 fired internal combustion turbines which are located at multiple locations around  
13 the system. Prior to the completion of this work, if dispatch models indicated that  
14 these units might need to be started after hours to meet system needs, personnel  
15 were called out to be ready to start the units if required. The units can now be  
16 started remotely reducing overtime and making the units available more quickly to  
17 meet unanticipated needs of the system..

18 **Capital Spending** – In light of current economic conditions, major capital  
19 replacements and other capital expenses are receiving careful scrutiny. Where  
20 possible, the use of existing equipment is being extended as long as safety and  
21 reliability is not compromised. Other investments are being delayed or deferred.  
22 As a result, non-new nuclear, non-scrubber related capital spending in 2009 was

1       \$154.9 million less than in 2008. This reduction in capital spending lowered the  
2       rate requirement in this proceeding by \$19.2 million.

3               **EIZ Tax Credit** – SCE&G earned an EIZ Tax Credit in 1996 based on  
4       qualified property additions. The EIZ Tax Credit exceeded the Company's state  
5       tax liability for the 1996 tax year by \$15.3 million. The Company's attempt to  
6       carry forward the unused credit to tax years 1997 and 1998 was contested by the  
7       South Carolina Department of Revenue (DOR). In 2008, the South Carolina  
8       Supreme Court ruled in favor of the DOR. The Company requested  
9       reconsideration, and in September 2009, the Supreme Court reversed itself and  
10      decided the matter in the Company's favor. As a result, the Company's customers  
11      will receive the benefit of the \$15.3 million credit. This tax credit and the  
12      acceleration of the recognition of other EIZ Tax Credit amounts are reducing the  
13      request in this proceeding by \$11.5 million.

14   **Q.   WHAT IS THE OVERALL ESTIMATED IMPACT OF THESE**  
15   **ENUMERATED COST REDUCTIONS AND SAVINGS?**

16   A.       The following is a chart showing, in part, the revenue requirement and fuel  
17   cost savings represented by the above cost reductions:

<b><u>Description of Savings/Reduction</u></b>	<b><u>Savings</u></b>
Health care costs	\$1,500,000
Fossil Hydro O&M and Supplies	1,700,000
Saluda Dam Remediation	40,400,000
Plant efficiencies	33,000,000
Fossil Hydro overtime	1,300,000
Overtime labor costs	600,000
Williams/Wateree staffing	1,600,000
Capital budget reduction	19,200,000



EIZ Tax Credit

**TOTAL**

11,500,000  
**\$110,800,000**

**Q. WHY THEN IS A RATE CASE NEEDED?**

A. In spite of the Company's effective cost control, a number of offsetting items in the Company's operations and finances have made it necessary for the Company to seek rate relief at this time. These increases are discussed in more detail later in my testimony and in Mr. Addison's testimony. In summary, the major items making this rate request necessary are as follows:

• **Mandatory Environmental and Safety Investments in Generating Plants –**

During the period since the last rate case, the Company has made significant investments in environmental and safety upgrades to its generating plants that were mandated by federal and state laws and regulations. As Mr. Byrne will testify in more detail, included in these investments are: (1) the installation of new flue gas desulphurization units and related facilities ("scrubbers") to reduce emissions of sulfur dioxide (SO<sub>2</sub>) at the Williams and Wateree stations; (2) the installation of a selective catalytic reactor ("SCR") at Cope Station in order to reduce emissions of nitrogen oxides (NO<sub>x</sub>); and (3) the completion of the construction of a federally mandated back-up dam at the site of the Saluda Hydro Project at Lake Murray in Lexington County. These projects represent a total unrecovered investment by the Company in federally mandated environmental and safety improvements of over \$700 million. The revenue requirements associated with these environmental and safety investments

1 represent 54% of the additional revenue requirement in this case. In addition,  
2 as Mr. Byrne will testify, the Company has made investments in peaking units  
3 to replace older units that were retired due to safety concerns. These new units  
4 will support the Company's provision of reliable service in the Charleston area.  
5 The costs associated with these turbines are approximately \$45 million. They  
6 represent approximately 3.8% of the increase.

7 • **Investment in Transmission, Distribution and Other Electric**

8 **Infrastructure** – To provide continued safe, reliable and efficient service and  
9 to serve new customers, the Company has made significant investments in its  
10 transmission and distribution system and other electric infrastructure. Since  
11 the last rate proceeding, the net investment in such assets is approximately  
12 \$270 million, representing 18% of the increased revenue requirement.

- 13 • **Critical Reliability Expenditures** – The Company has increased spending on  
14 other critical O&M items that have a direct impact on the reliability of our  
15 system to provide for and meet the energy needs of our customers. As I  
16 discuss in more detail below, the Company has undertaken a comprehensive  
17 vegetation management plan that is designed to improve reliable utility  
18 operations and the rapid restoration of electric utility service after storms or  
19 other events. In order to ensure that the Company can meet the goals of its  
20 vegetation management plan, SCE&G is proposing to increase its annual  
21 vegetation management and tree-trimming expenditure by \$6.6 million above  
22 the amounts included in the test period.

1 In addition, as Mr. Byrne will testify, the more intense usage of the  
2 Company's combined cycle plants, the aging of its generating fleet, and the  
3 inclusion of Williams Station turbine maintenance expenses in the annual  
4 turbine maintenance expense calculation have increased the amount of the  
5 annual accrual necessary to levelize SCE&G's turbine maintenance expense.  
6 An increase of approximately \$10.3 million is being requested to properly  
7 match maintenance expense with the year-by-year use of the plants that cause  
8 such expenses to be incurred. Vegetation management and turbine  
9 maintenance represent investments in the continued reliability of the  
10 Company's electric system and in the protection of system assets from failure  
11 and damage. They represent 9% of the additional revenue requirement in this  
12 case.

13 For these and other reasons, without a rate adjustment at this time, the  
14 Company will not have the funds necessary to continue to operate its electric  
15 system safely, efficiently and reliably over the long term. The Company also must  
16 be able to maintain access to capital needed to invest in its system.

17 **Q. WHAT IMPACTS HAVE FERC ELECTRIC RELIABILITY MANDATES**  
18 **HAD ON YOUR COSTS?**

19 A. The Company has experienced an increase in expenses associated with  
20 complying with electric reliability standards. Following the Northeast Blackout of  
21 2003, Congress enacted the Energy Policy Act of 2005 which gave the Federal  
22 Energy Regulatory Commission ("FERC") authority to issue mandatory electric

1 reliability standards and empowered the North American Electric Reliability  
2 Council (“NERC”), as the electric reliability organization (“ERO”), to enforce  
3 those standards with penalties for non-compliance of up to \$1 million per day per  
4 event. FERC has imposed fines on utilities as high as \$25 million for non-  
5 compliance with operating standards.

6 These standards apply to all aspects of planning, operating and maintaining  
7 the transmission grid, including tree trimming and vegetation control, operations  
8 standards and training of personnel, and inspection and repair of facilities.

9 Because of the potential for the electric transmission grid to be sabotaged through  
10 the internet by outside forces, including foreign governments or terrorist  
11 organizations, FERC has formulated extensive cyber security standards. These  
12 cyber security standards have mandated major investments by SCE&G in staffing,  
13 computer systems and tools, and in physical and cyber security to protect the  
14 integrity of its electric transmission grid. Cyber security is an increasing concern  
15 for FERC and more and more sophisticated cyber security is being required.

16 Over the past 3½ years the Company has incurred approximately \$4 million  
17 in ERO related expenses. In October 2008, NERC conducted an ERO Audit of  
18 SCE&G’s compliance. NERC found the Company to be in full compliance and  
19 the Company was told in the exit interview that SCE&G’s program was one of the  
20 best programs the auditing team had seen.

21 In a similar vein, the Nuclear Regulatory Commission recently issued the  
22 mandatory nuclear safety-related “fatigue rule,” which limits the number of hours

1 that personnel can work without rest. This new rule required the Company to hire  
2 and train additional security personnel at the V.C. Summer nuclear facility. The  
3 cost of compliance to SCE&G is approximately \$700,000 in hiring and training  
4 costs.

5 **Q. PLEASE EXPLAIN THE PRO FORMA FOR TREE TRIMMING AND**  
6 **VEGETATION MANAGEMENT EXPENSE?**

7 A. Tree trimming and vegetation management programs are maintenance  
8 activities that are critical to reliable utility operations and the rapid restoration of  
9 electric utility service after storms or other events. Post-storm reviews and  
10 investigations regarding system outages caused by heavy winds, snow,  
11 thunderstorms, tornadoes, hurricanes, and especially, ice, have consistently  
12 resulted in recommendations to develop more comprehensive and focused  
13 vegetation management plans to improve reliability and customer service. As  
14 mentioned above, it is now mandatory under the ERO standards that utilities adopt  
15 and carry out a documented vegetation management plan. Failure to execute the  
16 plan as adopted subjects the utility to self-reporting requirements and the  
17 potentially severe monetary penalties discussed above.

18 **Q. PLEASE EXPLAIN THE COMPANY'S TREE TRIMMING AND**  
19 **VEGETATION MANAGEMENT PLAN.**

20 A. The Company's comprehensive tree trimming and vegetation management  
21 plan prioritizes the individual circuits on our system based upon a strict criteria,  
22 including: a) time elapsed since the last trim cycle for the circuit; b) recent SAIDI

1 results for the circuit (annual average minutes of outage duration per customer); c)  
2 recent vegetation-related SAIDI events; d) the presence of critical and priority  
3 customers on the circuit; and e) operational management input concerning field  
4 conditions on the circuit. Tree-trimming contractors bid on circuit work by units  
5 of cost per mile or cost per circuit. As discussed below, SCE&G's expanded  
6 efforts in tree trimming and vegetation management have provided tremendous  
7 reliability improvements for our customers and they reduce the damage done to  
8 our system by storms.

9 **Q. WHAT RESULTS HAVE YOU ACHIEVED?**

10 A. Industry standards consistently reference a five-year cycle as being the  
11 preferred cycle for tree trimming in our area. Until recently, however, the  
12 Company had dropped to a seven to eight-year cycle. This was due in part to the  
13 number of times that Company crews and contract crews were diverted to assist  
14 with hurricane recovery efforts in Louisiana, Mississippi, and Florida, and to assist  
15 with winter storm recovery throughout the Eastern United States. In an effort to  
16 restore tree trimming and vegetation management to a five-year cycle, the  
17 Company requested authorization to charge certain incremental tree trimming and  
18 vegetation management costs against the Storm Damage Reserve. The Company  
19 requested authorization to spend an additional \$9,000,000 in 2008-2009 and  
20 \$6,800,000 in 2010 for tree trimming and vegetation management beyond the  
21 level provided for in its current rates. In Order Nos. 2009-87 and 2009-845, the  
22 Commission granted that request.

1           This additional funding has allowed the Company to make significant  
2 progress in restoring its tree trimming cycle to the five-year goal. As this  
3 additional tree trimming and vegetation management is completed, and a  
4 consistently shorter cycle is achieved, the Company's system is better able to  
5 withstand hurricanes, ice storms, and the other sorts of events that the Storm  
6 Damage Reserve was intended to secure against. In fact, in the recent record snow  
7 fall in February 2010, circuits that had been trimmed under this program showed  
8 few if any problems. More generally, the success of the plan is demonstrated by  
9 the fact that reliability results have improved by approximately eighty percent  
10 (80%) for vegetation related outages on recently completed circuits.

11           To complete this program, and to ensure that the Company can remain on a  
12 five-year vegetation management cycle going forward, SCE&G is proposing to  
13 increase its annual vegetation control and tree trimming expenditures by \$6.6  
14 million above the amounts included in the test period. These expenditures will  
15 allow the benefits from the current, heightened level of tree trimming work to be  
16 sustained and extended.

17           Tree trimming and vegetation management costs are investments SCE&G  
18 is making in its continued ability to meet the demands of its customers and to  
19 operate its system in a safe, efficient and reliable manner and, in certain situations,  
20 are mandatory under ERO rules. SCE&G is asking the Commission to approve  
21 this pro forma adjustment so that the benefits from this program can continue.  
22

1

2 **PLANNING FOR FUTURE DEMANDS**

3 **Q. WHAT IS THE ANTICIPATED IMPACT OF THE RECESSION ON THE**  
4 **COMPANY'S FORECASTED GROWTH?**

5 A. The current recession began in December of 2007. While many economists  
6 believe this recession ended in the third quarter of 2009, data that will determine  
7 the official date is not yet available. Regardless of the specific timing, the  
8 recession has had an effect on system growth.

9 **Q. WHAT DO PAST RECESSIONS SHOW ABOUT THE EFFECT OF**  
10 **ECONOMIC DOWNTURNS ON ELECTRIC UTILITY GROWTH?**

11 A. Overall SCE&G has seen consistent growth on its system, with a few years  
12 of minimal decline. The key driver of retail sales typically is weather. There are a  
13 number of years where recessions have driven modest declines in sales. An  
14 exception to this is 2009, in which the system experienced a significant sales  
15 decline as a result of the severe recession. Following all past recessions, SCE&G  
16 has seen growth in sales rebound.

17 **Q. WHAT IS SCE&G'S CURRENT LOAD FORECAST?**

18 A. The current forecast shows a modest rebound after the current recession and  
19 then continued growth at a moderate rate compared to past experience. This is due  
20 largely to energy efficiency improvements as discussed below. SCE&G's current  
21 forecast anticipates that the Company's total territorial energy sales on its system  
22 will grow at an average rate of 1.5% per year over the next 15 years, while firm



territorial summer peak demand and winter peak demand will increase at 1.8% and 1.6% per year, respectively, over this forecast horizon.

**Q. EXPLAIN HOW ENERGY EFFICIENCY COULD IMPACT YOUR FORECAST.**

A. Several adjustments were made to the baseline projections to incorporate significant energy efficiency impacts that are not reflected in historical experience. These impacts include: increased air-conditioning and heat pump efficiency standards; improved lighting efficiencies, both of which are mandated by federal law; and the addition of SCE&G's proposed energy efficiency programs. Baseline sales are projected to grow at the rate of 2.2% per year. The impact of energy efficiency causes the ultimate territorial sales growth to fall to 1.5% per year.

**Q. HOW DOES THE COMPANY PLAN TO MEET THE LOADS SET FORTH IN THIS FORECAST?**

A. As the Commission is aware, the Company has added only one new base load generating station to its system, Cope Station, since 1983. In 2006, after extensive review and assessment of the risks, feasibility and cost of all alternatives, the Company decided that the most prudent and responsible option for meeting future energy needs of its customers was to add new nuclear generation to its resource mix. As a part of this evaluation, the Company determined that the greatest risks that it and its customers faced were the risks of volatile and uncertain fossil fuel markets, and the risk of increasing stringent regulations of fossil fuel plant emissions. New nuclear capacity will help the

1 Company moderate those risks. While SCE&G expects alternative energy sources  
2 to play an increasing role in its portfolio, alternative energy sources were either  
3 too expensive, too unreliable, or too limited in scope for the Company to prudently  
4 rely on them at this time as a substitute for base load resources.

5 In May of 2008, the Company signed an Engineering, Procurement and  
6 Construction Agreement (“EPC Contract”) with Westinghouse Electric Company,  
7 LLC and the Shaw Group for construction of two AP-1000 advanced passive  
8 pressurized water nuclear reactors (the “Units”) which the Company will build in  
9 partnership with the South Carolina Public Service Authority (“Santee Cooper”).  
10 The new Units will be located at the site where SCE&G has successfully operated  
11 Summer Station Unit 1 in partnership with Santee Cooper since 1982. When these  
12 Units come on line, SCE&G’s carbon emissions will be lowered to their 1997  
13 levels, despite many years of intervening load growth. Over 60 years, the Units  
14 will reduce CO<sub>2</sub> emissions by 510 million tons compared to gas generation and 1  
15 billion tons compared to coal. They will result in similar reductions for sulfur  
16 dioxide, mercury and nitrogen oxides.

17 **Q. WHAT BEARING DOES THE CURRENT CASE HAVE ON THESE**  
18 **PROJECTS?**

19 A. As discussed by Company witnesses Addison and Cannell, the Company  
20 will be required to invest nearly \$3 billion in capital in its electric system over the  
21 next three years. New nuclear construction will be a large part of this investment,  
22 but necessary investment in other electric system infrastructure will also require

1 over \$1 billion of new capital. If the economy rebounds faster than anticipated,  
2 and if residential growth in South Carolina resumes at pre-recession rates, then our  
3 capital needs could be much greater.

4 Continued access to capital on terms that are favorable to the Company and  
5 its customers depends on the Company maintaining the debt service coverage  
6 ratios sufficient to support its bond ratings. It depends also on the Company  
7 generating the revenues sufficient to pay reasonable dividends and to produce  
8 reasonable levels of earnings to support the valuation of SCANA's stock. As Mr.  
9 Addison, Mrs. Cannell, and Mr. Hevert are testifying, the order issued in this  
10 proceeding will largely determine the degree to which doing those things will be  
11 possible in the near term. It will also determine the degree to which the  
12 investment community sees the Company as being able to count on constructive  
13 and balanced regulation going forward.

14 **Q. WHY IS THE COMPANY MAKING THIS REQUEST AT THIS TIME?**

15 A. The Company is very aware of how current economic conditions are  
16 impacting its customers. The Company has delayed making its request for rate  
17 adjustments as long as possible and has implemented policies to control costs  
18 where it has been possible to do so without impairing the safety, reliability and  
19 long-term efficiency of its system. In addition, as Mr. Addison will testify, the  
20 Company has tailored its request in this proceeding so as to mitigate the impact of  
21 this increase on its customers in light of the unique nature of the current economic

1 environment. If implemented as proposed, customers would save approximately  
2 \$100 million because of the deferral of rate adjustments. .

3 The Company is committed to meeting the energy needs of its customers  
4 efficiently, economically and reliably. It can only do so if it can afford to continue  
5 to meet its reliability and safety mandates and to invest in new generation  
6 resources, in transmission and distribution systems, and in other aspects of its  
7 energy infrastructure. Without reasonable revenues to meet expenses and without  
8 access to capital on reasonable terms, SCE&G will find it very difficult to meet  
9 the needs of its customers for reliable, efficient electric service in future years.

10 **Q. DO YOU HAVE ANY CONCLUDING COMMENTS?**

11 A. The Company, of course, recognizes that this proceeding takes place during  
12 trying economic times. As a result of the current economic conditions, the  
13 Company has made every effort to delay the need for rate relief and to cut costs  
14 where possible without adversely impacting the safety, reliability and service of its  
15 system. In addition, the Company has endeavored to spread out the  
16 implementation of the requested rate adjustment so as to minimize its impact on its  
17 customers. Rate relief cannot be delayed indefinitely. However, this electric rate  
18 proceeding comes at a critical turning point in the history of SCE&G's electric  
19 business. The costs that underlie this rate application reflect investments in the  
20 assets and the people that are necessary for SCE&G to operate a reliable and  
21 efficient electric system today and into the future. In addition, SCE&G must  
22 continue to invest in its system and service in order to meet the current and future

needs of its customers. For these reasons, the Company respectfully requests that the Commission grant the rate relief requested and affirm its support for the investments that the Company is making to meet its electric utility obligations and the needs of its customers now and in the future.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes. It does.